

An Overview

Two major events in 2004 influenced California's economic conditions: the state budget situation and the incremental interest rate increases made by the United States Federal Reserve bank.

California's Budget

When the Governor's proposed budget for the 2005-06 fiscal year was released in January, it contained an estimated \$8.6 billion shortfall.¹¹ By February, the Legislative Analyst projected a new shortfall of \$6.4 billion.¹² The change was attributed to an improving economy, lower unemployment rates and improved stock market earnings. The Analyst cautioned, however, that major cuts in existing state programs, new sources of revenue, or both, would still be needed to bring the budget into balance. In the meantime, the state continues to rely on significant borrowing. The current structural deficit indicates a trend that threatens to bring about even greater deficits in future years. In May, major budget decisions will be made based on updated revenue and expenditure forecasts and the Governor's revised budget.

Interest Rate Reductions

Throughout 2003, California's residential real estate industry grew substantially due to the United States Federal Reserve Bank's reduction of the federal funds rate, the interest that banks charge one another for short-term loans. The federal funds rate dropped to a 45-year low of one percent in 2003, precipitating a sharp decline in consumer interest rates and an increase in consumer spending. Beginning in June 2004, the Federal Reserve Bank increased the federal funds rate by .25 basis points on five occasions, resulting in a year-end federal funds rate of 2.25 percent. These rate increases led to higher rates on consumer debt and decreased the demand for real estate nationwide.

The following pages contain additional information on the major sectors of California's economy.

California Facts and Figures

Population: 35,484,453

White (Non Hispanic)	46.7%
Hispanic/Latino	32.4%
Asian	10.9%
Black/African American	6.7%
American Indian/Alaskan Native	1.0%
Native Hawaiian/	
Other Pacific Islander	0.3%
Other Races	16.7%
Two or More Races	4.7%

Median Household Income: \$47,493

Median Home Price: \$469,170

Homeownership Rate: 56.9%

Persons Below Poverty Level: 14.2% (12.4% nationally)

Minority-Owned Firms: 28.8% (14.6% nationally)

Women-Owned Firms: 27.3% (26.0% nationally)

Sources: United States Census Bureau and California
Association of Realtors

¹¹ "Governor's Budget 2005-06," California Department of Finance, January 2005.

¹² "Analysis of the 2005-06 Budget Bill," Legislative Analyst's Office, February 2005.